

**LUDLOW INDEPENDENT
SCHOOL DISTRICT**

**ANNUAL FINANCIAL REPORT
FOR THE YEAR ENDED JUNE 30, 2013**

- WITH INDEPENDENT AUDITORS' REPORT -

**LUDLOW INDEPENDENT SCHOOL DISTRICT
TABLE OF CONTENTS
JUNE 30, 2013**

Independent Auditors' Report	1-3
Management's Discussion and Analysis.....	4-8
Basic Financial Statements:	
District-wide Financial Statements:	
Statement of Net Position – District Wide	9
Statement of Activities – District Wide	10
Fund Financial Statements:	
Balance Sheet – Governmental Funds	11
Reconciliation of the Balance Sheet – Governmental Funds to the Statement of Net Position	12
Statement of Revenues, Expenditures and Changes in Fund Balances – Governmental Funds	13
Reconciliation of the Statement of Revenues, Expenditures, and Changes in Fund Balance of Governmental Funds to the Statement of Activities	14
Statement of Revenues, Expenditures and Changes in Fund Balance – Budget and Actual – General Fund	15
Statement of Revenues, Expenditures and Changes in Fund Balance – Budget and Actual – Special Revenue Fund.....	16
Statement of Net Position – Proprietary Funds	17
Statement of Revenues, Expenses and Changes in Net Position – Proprietary Funds	18
Statement of Cash Flows – Proprietary Funds	19
Statement of Net Position – Fiduciary Funds.....	20
Statement of Revenues, Expenses and Changes in Net Position – Fiduciary Funds.....	21
Notes to the Financial Statements	22-35

**LUDLOW INDEPENDENT SCHOOL DISTRICT
TABLE OF CONTENTS – (CONT'D)
JUNE 30, 2013**

Supplementary Information:

Combining Statements – Nonmajor Funds

Combining Balance Sheet – Nonmajor Governmental Funds	36
Combining Statement of Revenues, Expenditures and Changes in Fund Balances – Nonmajor Governmental Funds.....	37
Statement of Receipts, Disbursements and Fund Balances – Bond and Interest Redemption Funds.....	38
Statement of Receipts, Disbursements and Fund Balances – Ludlow High School Activity Funds	39
Statement of Receipts, Disbursements and Fund Balances – School Activity Funds.....	40
Schedule of Expenditures of Federal Awards	41
Notes to the Schedule of Expenditures of Federal Awards	42
Schedule of Findings and Questioned Costs	43
Board Members and Administrative Personnel	44
Independent Auditors' Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with Government Auditing Standards	45-46
Independent Auditors' Report on Compliance for on Each Major Program and on Internal Control over Compliance Required by OMB Circular A-133.....	47-48
Management Letter Comments	49



Independent Auditors' Report

To the Members of the Board of Education
Ludlow Independent School District
525 Elm Street
Ludlow, Kentucky 41016

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Ludlow Independent School District as of and for the year ended June 30, 2013, and the related notes to the financial statements, which collectively comprise the Ludlow Independent School District's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Ludlow Independent School District, as of June 30, 2013, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and budgetary comparison information on pages 4–8 and 15-16 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information


Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Ludlow Independent School District's basic financial statements. The introductory section, combining and individual nonmajor fund financial statements, and statistical section are presented for purposes of additional analysis and are not a required part of the basic financial statements. The schedule of expenditures of federal awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is also not a required part of the basic financial statements.

The combining and individual nonmajor fund financial statements and the schedule of expenditures of federal awards are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the combining and individual nonmajor fund financial statements and the schedule of expenditures of federal awards are fairly stated in all material respects in relation to the basic financial statements as a whole.

The introductory and statistical sections have not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we do not express an opinion or provide any assurance on them.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated September 25, 2013 on our consideration of the Ludlow Independent School District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Ludlow Independent School District's internal control over financial reporting and compliance.



Crestview Hills, Kentucky
September 25, 2013

**LUDLOW INDEPENDENT SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A)
FOR THE YEAR ENDED JUNE 30, 2013**

As management of the Ludlow Independent School District (District), we offer readers of the District's financial statements this narrative overview and analysis of the financial activities of the District for the fiscal year ended June 30, 2013. We encourage readers to consider the information presented here in conjunction with additional information found within the body of the audit.

FINANCIAL HIGHLIGHTS

- The beginning cash balance, including investments, for the District was \$896,977.
- Average Daily Attendance (ADA) for fiscal year 2013 was 761.93. Over the past four years we have had a decrease in ADA of 48. This is always an area of concern. Our attendance trend seems to be shifting due to the fact that our elementary class sizes are larger than our high school class sizes. This should allow us to see our ADA to rise next year due to these class size increases.
- The General Fund had \$6,555,383 in revenue (net of interfund transfers of \$124,414), which primarily consisted of the state program (SEEK), property taxes, local occupational license taxes, utilities taxes, and motor vehicle taxes. There was \$7,081,359 in General Fund expenditures (net of interfund transfers of \$33,405). Budgeted contingency funds were \$419,893 in the General Fund 2013.
- The ending unassigned fund balance in the General Fund for fiscal year 2013 is \$1,003,817. This is a decrease of \$345,644 from 2012. From year to year the state legislature is requiring the District to absorb more and more mandated expenses, while at the same time they continue to cut grant funding.

OVERVIEW OF FINANCIAL STATEMENTS

This discussion and analysis is intended to serve as an introduction to the District's basic financial statements. The District's basic financial statements comprise three components: 1) district-wide financial statements, 2) fund financial statements, and 3) notes to the financial statements. This report also contains other supplementary information in addition to the basic financial statements themselves.

District-wide financial statements. The district-wide financial statements are designed to provide readers with a broad overview of the District's finances, in a manner similar to a private-sector business.

The statement of net position presents information on all of the District's assets and liabilities, with the difference between the two reported as net position. Over time, increases or decreases in net position may serve as a useful indicator of whether the financial position of the District is improving or deteriorating.

The statement of activities presents information showing how the District's net position changed during the most recent fiscal year. All changes in net position are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods.

**LUDLOW INDEPENDENT SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A) (CONT'D)
FOR THE YEAR ENDED JUNE 30, 2013**

OVERVIEW OF FINANCIAL STATEMENTS (CONT'D)

The district-wide financial statements outline functions of the District that are principally supported by property taxes and intergovernmental revenues (governmental activities). The governmental activities of the District include instruction, support services, operation and maintenance of plant, student transportation and operation of non-instructional services. Fixed assets and related debt are also supported by taxes and intergovernmental revenues.

The district-wide financial statements can be found on pages 9 and 10 of this report.

Fund financial statements. A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. This is a state mandated uniform system and chart of accounts for all Kentucky public school districts utilizing the MUNIS administrative software. The District uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the funds of the District can be divided into three categories: governmental, proprietary funds and fiduciary funds. Fiduciary funds are trust funds established by benefactors to aid in student education, welfare and teacher support. The only proprietary funds are our vending and food service operations. All other activities of the District are included in the governmental funds.

The basic governmental fund financial statements can be found on pages 11 through 21 of this report.

Notes to the financial statements. The notes provide additional information that is essential to a full understanding of the data provided in the district-wide and fund financial statements. The notes to the financial statements can be found on pages 22 through 35 of this report.

DISTRICT-WIDE FINANCIAL ANALYSIS

Net position may serve over time as a useful indicator of a district's financial position. In the case of the District, assets exceeded liabilities by \$2,690,207 as of June 30, 2013.

The largest portion of the District's net position reflects its investment in capital assets (e.g., land and improvements, buildings and improvements, vehicles, furniture and equipment and construction in progress), less any related debt used to acquire those assets that is still outstanding. The District uses these capital assets to provide services to its students; consequently, these assets are not available for future spending. Although the District's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

The District's financial position is the product of several financial transactions including the net results of activities, the acquisition and payment of debt, the acquisition and disposal of capital assets, and the depreciation of capital assets.

**LUDLOW INDEPENDENT SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A) (CONT'D)
FOR THE YEAR ENDED JUNE 30, 2013**

DISTRICT-WIDE FINANCIAL ANALYSIS (CONT'D)

Net Position for the periods ending June 30, 2013 and 2012

The following is a summary of net position for the fiscal years ended June 30, 2013 and 2012.

	2013	2012
Current assets	\$ 1,407,867	\$ 1,920,211
Non-current assets	<u>4,766,300</u>	<u>4,966,043</u>
Total assets	<u>\$ 6,174,167</u>	<u>\$ 6,886,254</u>
Current liabilities	\$ 481,027	\$ 461,915
Non-current liabilities	<u>3,002,933</u>	<u>3,362,543</u>
Total liabilities	<u>\$ 3,483,960</u>	<u>\$ 3,824,458</u>
Net position		
Investment in capital assets (net of debt)	\$ 1,551,785	\$ 1,462,710
Restricted	312,079	325,502
Committed	-	95,900
Assigned	6,577	-
Unassigned	<u>819,766</u>	<u>1,177,684</u>
Total net position	<u>\$ 2,690,207</u>	<u>\$ 3,061,796</u>

Comments on Budget Comparisons

- The District's total General Fund revenues for the fiscal year ended June 30, 2013, including interfund transfers of \$124,414, were \$6,679,797.
- General Fund budget compared to actual revenue varied slightly from line item to line item with the ending actual balance being \$1,631,613 more than budget or approximately 32.3% of the General Fund budget. The majority of this variance is the result of the District recording "on behalf" payments made by the state.
- The total cost of all General Fund programs and services was \$7,114,764 including debt service.
- General Fund actual expenditures exceeded budgeted expenditures by \$766,582. The majority of this variance is the result of the District recording "on behalf" payments made by the state.

**LUDLOW INDEPENDENT SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A) (CONT'D)
FOR THE YEAR ENDED JUNE 30, 2013**

DISTRICT-WIDE FINANCIAL ANALYSIS (CONT'D)

The following table presents a summary of revenue and expense for the fiscal years ended June 30, 2013 and 2012.

	2013	2012
Revenues:		
Program revenues:		
Charges for services	\$ 157,380	\$ 150,912
Operating grants and contributions	1,136,786	1,406,042
Capital grants and contributions	<u>357,334</u>	<u>240,836</u>
Total grant revenues	<u>1,651,500</u>	<u>1,797,790</u>
General revenues:		
Property taxes	1,958,483	1,895,719
Grants and entitlements	4,682,773	4,801,480
Earnings on investments	4,999	18,277
Miscellaneous	<u>(77,962)</u>	<u>68,828</u>
Total general revenues	<u>6,568,293</u>	<u>6,784,304</u>
Total revenues	<u>8,219,793</u>	<u>8,582,094</u>
Expenses:		
Instruction	4,779,261	4,932,363
Student support services	286,930	294,695
Instructional support	714,568	520,596
District administration	545,881	528,441
School administration	516,952	502,789
Business support	199,077	177,677
Plant operations	785,048	760,609
Student transportation	57,223	52,710
Other	3,408	3,405
Community support	79,103	81,119
Food service	497,864	490,764
Interest	<u>126,067</u>	<u>77,292</u>
Total expenses	<u>8,591,382</u>	<u>8,422,460</u>
Excess (deficit) of revenues over expenses	<u><u>\$ (371,589)</u></u>	<u><u>\$ 159,634</u></u>

**LUDLOW INDEPENDENT SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A) (CONT'D)
FOR THE YEAR ENDED JUNE 30, 2013**

BUDGETARY IMPLICATIONS

Ludlow Independent School District administered federal and state grant funds totaling \$656,204. Below is a three year comparison of our federal and state grant funds:

	<u>2013</u>	<u>2012</u>	<u>2011</u>
State Grants	\$ 239,393	\$ 243,762	\$ 242,866
Federal Grants	\$ 416,811	\$ 471,687	\$ 741,247

The working budget contingency balance in the General Fund for fiscal year 2013 was \$419,893 (7.1%). The Kentucky Department of Education mandates a minimum 2.0% contingency for budgeting purposes. The District's contingency balance increased from 2012 to 2013 by \$10,426. While the contingency balance is a good reflection of how the District is fairing it is not the only factor. Although our increase in beginning carry forward balance for 2013 was higher than the 2012 balance, our current carry forward for 2014 has decreased due to cuts in state and federal funding and therefore, the necessity of using general fund money to supplement that decrease. Due to the stress of implementing mandated curriculum changes we will continually have to look at different ways to accomplish the high standards we set for ourselves.

Fiscal year 2014 is already upon us and we are doing our best to balance the financial outlook with what is best for the students of Ludlow Independent School District.

CONTACTING THE DISTRICT'S FINANCIAL MANAGEMENT

Questions regarding this report should be directed to Mr. Michael Borchers, Superintendent (859) 261-8210 or by mail at Ludlow Independent School District, 525 Elm St., Ludlow, KY 41016.

**LUDLOW INDEPENDENT SCHOOL DISTRICT
STATEMENT OF NET POSITION - DISTRICT WIDE
AS OF JUNE 30, 2013**

	GOVERNMENTAL ACTIVITIES	BUSINESS-TYPE ACTIVITIES	TOTAL
ASSETS			
CURRENT			
Cash and cash equivalents	\$ 103,630	\$ 3,136	\$ 106,766
Investments	1,068,020	-	1,068,020
Accounts receivable	168,061	45,338	213,399
Inventories for consumption	-	19,682	19,682
Total current	<u>1,339,711</u>	<u>68,156</u>	<u>1,407,867</u>
NONCURRENT			
Bond issuance costs, net	35,714	-	35,714
Nondepreciated capital assets:			
Land	391,300	-	391,300
Depreciated capital assets:			
Land improvements	112,189	-	112,189
Buildings and improvements	8,278,314	-	8,278,314
Furniture and equipment	1,645,602	125,364	1,770,966
Less: accumulated depreciation	<u>(5,741,647)</u>	<u>(80,536)</u>	<u>(5,822,183)</u>
Total noncurrent	<u>4,721,472</u>	<u>44,828</u>	<u>4,766,300</u>
Total assets	<u><u>\$ 6,061,183</u></u>	<u><u>\$ 112,984</u></u>	<u><u>\$ 6,174,167</u></u>
LIABILITIES			
CURRENT			
Current portion of bonds payable	\$ 299,220	\$ -	\$ 299,220
Accounts payable	24,768	400	25,168
Accrued interest	7,098	-	7,098
Accrued sick leave	9,738	-	9,738
Accrued payroll and related expenses	41,020	-	41,020
Assessed KISBIT liability	79,577	-	79,577
Deferred revenues	<u>19,206</u>	<u>-</u>	<u>19,206</u>
Total current	<u>480,627</u>	<u>400</u>	<u>481,027</u>
NONCURRENT			
Accrued sick leave	87,638	-	87,638
Bond obligations	<u>2,915,295</u>	<u>-</u>	<u>2,915,295</u>
Total noncurrent	<u>3,002,933</u>	<u>-</u>	<u>3,002,933</u>
Total liabilities	<u>3,483,560</u>	<u>400</u>	<u>3,483,960</u>
NET POSITION			
Invested in capital assets, net of related debt	1,506,957	44,828	1,551,785
Restricted for:			
Net position	-	48,074	48,074
Capital projects	244,323	-	244,323
Inventories	-	19,682	19,682
Assigned			
Purchase obligations	6,577	-	6,577
Unassigned	<u>819,766</u>	<u>-</u>	<u>819,766</u>
Total net position	<u>2,577,623</u>	<u>112,584</u>	<u>2,690,207</u>
Total liabilities and net position	<u><u>\$ 6,061,183</u></u>	<u><u>\$ 112,984</u></u>	<u><u>\$ 6,174,167</u></u>

(See Auditors' Report and Accompanying Notes to the Financial Statements)

**LUDLOW INDEPENDENT SCHOOL DISTRICT
STATEMENT OF ACTIVITIES - DISTRICT WIDE
FOR THE YEAR ENDED JUNE 30, 2013**

FUNCTION/PROGRAMS	PROGRAM REVENUES				NET (EXPENSE) REVENUE AND CHANGES IN NET POSITION		
	EXPENSES	CHARGES FOR SERVICES	OPERATING GRANTS AND CONTRIBUTIONS	CAPITAL GRANTS AND CONTRIBUTIONS	GOVERNMENTAL ACTIVITIES	BUSINESS - TYPE ACTIVITIES	TOTAL
Governmental Activities:							
Instructional	\$ 4,779,261	\$ 24,287	\$ 481,437	\$ -	\$ (4,273,537)	\$ -	\$ (4,273,537)
Student support services	286,930	-	43,356	-	(243,574)	-	(243,574)
Staff support services	714,568	-	146,434	-	(568,134)	-	(568,134)
District administration	545,881	-	2,485	-	(543,396)	-	(543,396)
School administration	516,952	-	-	-	(516,952)	-	(516,952)
Business support services	199,077	-	-	-	(199,077)	-	(199,077)
Plant operation and maintenance	785,048	-	-	-	(785,048)	-	(785,048)
Student transportation	57,223	-	-	-	(57,223)	-	(57,223)
Other	3,408	-	-	-	(3,408)	-	(3,408)
Community service operations	79,103	-	78,768	-	(335)	-	(335)
Facility acquisition and construction	-	-	-	357,334	357,334	-	357,334
Interest on long-term debt	126,067	-	-	-	(126,067)	-	(126,067)
Total governmental activities	8,093,518	24,287	752,480	357,334	(6,959,417)	-	(6,959,417)
Business-type Activities							
Food service	497,864	133,093	384,306	-	-	19,535	19,535
Total business-type activities	497,864	133,093	384,306	-	-	19,535	19,535
Total school district	<u>\$ 8,591,382</u>	<u>\$ 157,380</u>	<u>\$ 1,136,786</u>	<u>\$ 357,334</u>	<u>\$ (6,959,417)</u>	<u>\$ 19,535</u>	<u>\$ (6,939,882)</u>
General revenues:							
Taxes					\$ 1,958,483	\$ -	\$ 1,958,483
State aid formula grants					4,682,773	-	4,682,773
Investment earnings					4,951	48	4,999
Principal payments made by KSFCC					-	-	-
Miscellaneous					7,237	-	7,237
Special items:							
KISBIT Assessment					(79,577)	-	(79,577)
Loss on disposal of assets					(5,622)	-	(5,622)
Transfers					22,467	(22,467)	-
Total general and special revenues					6,590,712	(22,419)	6,568,293
Change in net position					(368,705)	(2,884)	(371,589)
Net position - beginning					2,946,328	115,468	3,061,796
Net position - ending					<u>\$ 2,577,623</u>	<u>\$ 112,584</u>	<u>\$ 2,690,207</u>

(See Auditors' Report and Accompanying Notes to the Financial Statements)

**LUDLOW INDEPENDENT SCHOOL DISTRICT
BALANCE SHEET - GOVERNMENTAL FUNDS
AS OF JUNE 30, 2013**

	<u>GENERAL FUND</u>	<u>SPECIAL REVENUE FUND</u>	<u>CONSTRUCTION FUND</u>	<u>OTHER GOVERNMENTAL FUNDS</u>	<u>TOTAL GOVERNMENTAL FUNDS</u>
ASSETS					
CURRENT					
Cash and cash equivalents	\$ (58,851)	\$ (81,842)	\$ 219,722	\$ 24,601	\$ 103,630
Investments	1,068,020	-	-	-	1,068,020
Accounts receivable	59,668	108,393	-	-	168,061
	<u>59,668</u>	<u>108,393</u>	<u>-</u>	<u>-</u>	<u>168,061</u>
Total assets	<u>\$ 1,068,837</u>	<u>\$ 26,551</u>	<u>\$ 219,722</u>	<u>\$ 24,601</u>	<u>\$ 1,339,711</u>
LIABILITIES AND FUND BALANCE					
CURRENT					
Accounts payable	\$ 17,423	\$ 7,345	\$ -	\$ -	\$ 24,768
Accrued payroll and related expenses	41,020	-	-	-	41,020
Deferred revenues	-	19,206	-	-	19,206
	<u>-</u>	<u>19,206</u>	<u>-</u>	<u>-</u>	<u>19,206</u>
Total current	<u>58,443</u>	<u>26,551</u>	<u>-</u>	<u>-</u>	<u>84,994</u>
FUND BALANCE					
Restricted					
KSFCC Escrow	-	-	-	24,601	24,601
Capital Projects	-	-	219,722	-	219,722
Committed					
Accrued sick leave	-	-	-	-	-
Assigned					
Site based carryforward	-	-	-	-	-
Purchase obligations	6,577	-	-	-	6,577
Unassigned	1,003,817	-	-	-	1,003,817
	<u>1,003,817</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>1,003,817</u>
Total fund balance	<u>1,010,394</u>	<u>-</u>	<u>219,722</u>	<u>24,601</u>	<u>1,254,717</u>
Total liabilities and fund balance	<u>\$ 1,068,837</u>	<u>\$ 26,551</u>	<u>\$ 219,722</u>	<u>\$ 24,601</u>	<u>\$ 1,339,711</u>

(See Auditors' Report and Accompanying Notes to the Financial Statements)

**LUDLOW INDEPENDENT SCHOOL DISTRICT
RECONCILIATION OF THE BALANCE SHEET - GOVERNMENTAL
FUNDS TO THE STATEMENT OF NET POSITION
AS OF JUNE 30, 2013**

Total governmental fund balance		\$ 1,254,717
Amounts reported for governmental activities in the statement of net position are different because:		
Bond issuance costs		35,714
Capital assets used in governmental activities are not financial resources and therefore are not reported as assets in governmental funds.		
Construction in progress	-	
Cost of capital assets	10,427,405	
Accumulated depreciation	<u>(5,741,647)</u>	4,685,758
Long-term liabilities (including bonds payable) are not due and payable in the current period and therefore are not reported as liabilities in the funds.		
Long-term liabilities at year end consist of:		
Bonds payable		(3,214,515)
Accrued interest on bonds		(7,098)
Assessed KISBIT liability		(79,577)
Accrued sick leave		<u>(97,376)</u>
Total net position - governmental		<u>\$ 2,577,623</u>

(See Auditors' Report and Accompanying Notes to the Financial Statements)

LUDLOW INDEPENDENT SCHOOL DISTRICT
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES - GOVERNMENTAL FUNDS
FOR THE YEAR ENDED JUNE 30, 2013

	GENERAL FUND	SPECIAL REVENUE FUND	CONSTRUCTION FUND	OTHER GOVERNMENTAL FUNDS	TOTAL GOVERNMENTAL FUNDS
REVENUES:					
Taxes	\$ 1,836,135	\$ -	\$ -	\$ 122,348	\$ 1,958,483
Earnings on investments	4,951	-	-	-	4,951
State sources	4,676,309	286,533	-	357,334	5,320,176
Federal sources	6,464	459,202	-	-	465,666
Other sources	31,524	6,745	-	-	38,269
Total revenues	6,555,383	752,480	-	479,682	7,787,545
EXPENDITURES:					
Instructional	4,219,323	493,840	-	-	4,713,163
Student support services	243,574	43,356	-	-	286,930
Staff support services	567,560	146,434	-	-	713,994
District administration	526,980	2,485	-	-	529,465
School administration	516,478	-	-	-	516,478
Business support services	196,737	-	-	-	196,737
Plant operation and maintenance	766,340	-	-	-	766,340
Student transportation	44,367	-	-	-	44,367
Community service operations	-	78,768	-	-	78,768
Debt service:					
Principal	-	-	-	288,818	288,818
Interest	-	-	-	126,604	126,604
Total expenditures	7,081,359	764,883	-	415,422	8,261,664
Excess(deficit) of revenues over expenditures	(525,976)	(12,403)	-	64,260	(474,119)
Other financing sources(uses):					
Operating transfers in	124,414	12,403	-	294,385	431,202
Operating transfers out	(33,405)	-	-	(375,331)	(408,736)
Total other financing sources(uses)	91,009	12,403	-	(80,946)	22,466
Net change in fund balance	(434,967)	-	-	(16,686)	(451,653)
Fund balance, July 1, 2012	1,445,361	-	219,722	41,287	1,706,370
Fund balance, June 30, 2013	<u>\$ 1,010,394</u>	<u>\$ -</u>	<u>\$ 219,722</u>	<u>\$ 24,601</u>	<u>\$ 1,254,717</u>

(See Auditors' Report and Accompanying Notes to the Financial Statements)

**LUDLOW INDEPENDENT SCHOOL DISTRICT
RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES AND CHANGES
IN FUND BALANCE OF GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2013**

Net changes - governmental funds \$ (451,653)

Amounts reported for governmental activities in the statement of net position are different because:

Governmental funds report capital outlays as expenditures because they use current financial resources. However in the statement of activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. This is the amount by which capital exceeds depreciation expense for the year.

Depreciation expense	(336,319)	
Retirement of capital assets	(5,622)	
Construction in process	-	
Capital outlays	<u>151,419</u>	(190,522)

Bond proceeds are reported as financing sources in governmental funds and thus contribute to the change in fund balance. In the statement of net position however issuing debt increases long-term liabilities and does not affect the statement of activities. Similarly repayment of principal is an expenditure in the governmental funds but reduces the liability in the statement of net position.

Principal paid	<u>288,818</u>	288,818
----------------	----------------	---------

Generally, expenditures recognized in this fund financial statement are limited to only those that use current financial resources, but expenses are recognized in the statement of activities when they are incurred.

(15,348)

Changes in net position of governmental activities \$ (368,705)

**LUDLOW INDEPENDENT SCHOOL DISTRICT
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN
FUND BALANCE - BUDGET AND ACTUAL - GENERAL FUND
FOR THE YEAR ENDED JUNE 30, 2013**

	ORIGINAL BUDGET	FINAL BUDGET	ACTUAL	VARIANCE WITH FINAL BUDGET POSITIVE (NEGATIVE)
REVENUES:				
Taxes	\$ 1,671,201	\$ 1,671,201	\$ 1,836,135	\$ 164,934
Other local sources	31,000	31,000	36,475	5,475
State sources	3,313,983	3,313,983	4,676,309	1,362,326
Federal sources	7,000	7,000	6,464	(536)
Other sources	25,000	25,000	124,414	99,414
Total revenues	<u>5,048,184</u>	<u>5,048,184</u>	<u>6,679,797</u>	<u>1,631,613</u>
EXPENDITURES:				
Instruction	3,277,711	3,277,711	4,219,323	(941,612)
Student support services	210,439	210,439	243,574	(33,135)
Staff support services	499,765	499,765	567,560	(67,795)
District administration	488,097	488,097	526,980	(38,883)
School administration	429,382	429,382	516,478	(87,096)
Business support services	188,442	188,442	196,737	(8,295)
Plant operation and maintenance	757,096	757,096	766,340	(9,244)
Student transportation	36,100	36,100	44,367	(8,267)
Other	461,152	461,152	33,405	427,747
Total expenditures	<u>6,348,184</u>	<u>6,348,184</u>	<u>7,114,764</u>	<u>(766,580)</u>
Net change in fund balance	(1,300,000)	(1,300,000)	(434,967)	865,033
Fund balance, July 1, 2012	<u>1,300,000</u>	<u>1,300,000</u>	<u>1,445,361</u>	<u>145,361</u>
Fund balance, June 30, 2013	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 1,010,394</u>	<u>\$ 1,010,394</u>

(See Auditors' Report and Accompanying Notes to the Financial Statements)

**LUDLOW INDEPENDENT SCHOOL DISTRICT
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN
FUND BALANCE - BUDGET AND ACTUAL - SPECIAL REVENUE FUND
FOR THE YEAR ENDED JUNE 30, 2013**

	<u>ORIGINAL BUDGET</u>	<u>FINAL BUDGET</u>	<u>ACTUAL</u>	<u>VARIANCE WITH FINAL BUDGET POSITIVE (NEGATIVE)</u>
REVENUES:				
State sources	\$ 243,070	\$ 243,070	\$ 286,533	\$ 43,463
Federal sources	502,124	512,417	459,202	(53,215)
Other sources	<u>20,255</u>	<u>7,655</u>	<u>19,148</u>	<u>11,493</u>
Total revenues	<u>765,449</u>	<u>763,142</u>	<u>764,883</u>	<u>1,741</u>
EXPENDITURES:				
Instruction	536,674	546,979	493,840	53,139
Student support services	40,471	43,471	43,356	115
Staff support services	107,180	107,168	146,434	(39,266)
District administration	2,487	2,487	2,485	2
Community service operations	<u>78,637</u>	<u>63,037</u>	<u>78,768</u>	<u>(15,731)</u>
Total expenditures	<u>765,449</u>	<u>763,142</u>	<u>764,883</u>	<u>(1,741)</u>
Net change in fund balance	-	-	-	-
Fund balance, July 1, 2012	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Fund balance, June 30, 2013	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

(See Auditors' Report and Accompanying Notes to the Financial Statements)

**LUDLOW INDEPENDENT SCHOOL DISTRICT
STATEMENT OF NET POSITION - PROPRIETARY FUNDS
AS OF JUNE 30, 2013**

	FOOD SERVICE	TOTAL
ASSETS		
CURRENT		
Cash and cash equivalents	\$ 3,136	\$ 3,136
Accounts receivable	45,338	45,338
Inventories for consumption	19,682	19,682
Total current	68,156	68,156
NONCURRENT		
Furniture and fixtures	125,364	125,364
Less: accumulated depreciation	(80,536)	(80,536)
Total noncurrent	44,828	44,828
Total assets	<u>\$ 112,984</u>	<u>\$ 112,984</u>
LIABILITIES		
CURRENT		
Accounts payable	\$ 400	\$ 400
Total current	400	400
NET POSITION		
Invested in assets, net of debt	44,828	44,828
Restricted - inventories	19,682	19,682
Restricted - net position	48,074	48,074
Total net position	112,584	112,584
Total liabilities and net position	<u>\$ 112,984</u>	<u>\$ 112,984</u>

(See Auditors' Report and Accompanying Notes to the Financial Statements)

**LUDLOW INDEPENDENT SCHOOL DISTRICT
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN
NET POSITION - PROPRIETARY FUNDS
FOR THE YEAR ENDED JUNE 30, 2013**

	FOOD SERVICE	TOTAL
OPERATING REVENUES:		
Lunchroom sales	\$ 128,621	\$ 128,621
Other operating revenues	4,472	4,472
	<hr/>	<hr/>
Total operating revenues	133,093	133,093
	<hr/>	<hr/>
OPERATING EXPENSES:		
Salaries and benefits	219,421	219,421
Contract services	6,534	6,534
Materials and supplies	260,991	260,991
Depreciation	10,510	10,510
Other operating expenses	408	408
	<hr/>	<hr/>
Total operating expenses	497,864	497,864
	<hr/>	<hr/>
Operating loss	(364,771)	(364,771)
	<hr/>	<hr/>
NONOPERATING REVENUES (EXPENSES):		
Federal grants	325,224	325,224
State grants	28,001	28,001
Donated commodities and other donations	31,081	31,081
Transfers	(22,467)	(22,467)
Loss on disposal of capital assets	-	-
Interest income	48	48
	<hr/>	<hr/>
Total non-operating revenue	361,887	361,887
	<hr/>	<hr/>
Net loss	(2,884)	(2,884)
	<hr/>	<hr/>
Total net position, July 1, 2012	115,468	115,468
	<hr/>	<hr/>
Total net position, June 30, 2013	<u>\$ 112,584</u>	<u>\$ 112,584</u>

(See Auditors' Report and Accompanying Notes to the Financial Statements)

**LUDLOW INDEPENDENT SCHOOL DISTRICT
STATEMENT OF CASH FLOWS-PROPRIETARY FUNDS
FOR THE YEAR ENDED JUNE 30, 2013**

	FOOD SERVICE FUND	TOTAL
CASH FLOWS FROM OPERATING ACTIVITIES		
Cash received from lunchroom sales	\$ 128,621	\$ 128,621
Cash received from other activities	4,472	4,472
Cash payments to employees for services	(219,421)	(219,421)
Cash payments to suppliers for goods and services	(272,601)	(272,601)
Cash transfers	(22,467)	(22,467)
Net cash used in operating activities	(381,396)	(381,396)
CASH FLOWS FROM CAPITAL FINANCING ACTIVITIES		
Acquisition of capital assets	(4,697)	(4,697)
Net cash used in capital financing activities	(4,697)	(4,697)
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES		
Non-operating revenues received	347,958	347,958
Net cash provided by noncapital financing activities	347,958	347,958
CASH FLOWS FROM INVESTING ACTIVITIES		
Interest on investments	48	48
Net cash flows provided by investing activities	48	48
Net decrease in cash and cash equivalents	(38,087)	(38,087)
Cash and cash equivalents - beginning	41,223	41,223
Cash and cash equivalents - ending	\$ 3,136	\$ 3,136
RECONCILIATION OF OPERATING LOSS TO NET CASH USED IN OPERATING ACTIVITIES		
Operating loss	\$ (364,771)	\$ (364,771)
ADJUSTMENTS TO RECONCILE OPERATING LOSS TO NET CASH USED IN OPERATING ACTIVITIES		
Depreciation	10,510	10,510
Interfund transfers	(22,467)	(22,467)
Changes in assets and liabilities:		
Increase in inventory	(5,035)	(5,035)
Increase in accounts payable	367	367
Net cash used in operating activities	\$ (381,396)	\$ (381,396)
SCHEDULE OF NON-CASH TRANSACTIONS:		
Donated commodities received from federal government	\$ 31,081	\$ 31,081

(See Auditors' Report and Accompanying Notes to the Financial Statements)

**LUDLOW INDEPENDENT SCHOOL DISTRICT
STATEMENT OF NET POSITION - FIDUCIARY FUNDS
AS OF JUNE 30, 2013**

	<u>TRUST/AGENCY FUND</u>	<u>TOTAL</u>
ASSETS		
CURRENT		
Cash and cash equivalents	\$ 79,727	\$ 79,727
Total current assets	<u>79,727</u>	<u>79,727</u>
NONCURRENT		
Capital assets	-	-
Total noncurrent assets	-	-
Total assets	<u>\$ 79,727</u>	<u>\$ 79,727</u>
LIABILITIES		
CURRENT		
Accounts payable	\$ 1,000	\$ 1,000
Total current	<u>1,000</u>	<u>1,000</u>
NONCURRENT		
Total noncurrent	-	-
Total liabilities	<u>1,000</u>	<u>1,000</u>
NET POSITION		
RESTRICTED	68,324	68,324
UNRESTRICTED	<u>10,403</u>	<u>10,403</u>
Total net position	<u>78,727</u>	<u>78,727</u>
Total liabilities and net position	<u>\$ 79,727</u>	<u>\$ 79,727</u>

(See Auditors' Report and Accompanying Notes to the Financial Statements)

LUDLOW INDEPENDENT SCHOOL DISTRICT
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET POSITION - FIDUCIARY FUNDS
FOR THE YEAR ENDED JUNE 30, 2013

	<u>TRUST/AGENCY FUND</u>	<u>TOTAL</u>
ADDITIONS		
Investment income	\$ 32	\$ 32
Private donations	<u>14,940</u>	<u>14,940</u>
Total additions	<u>14,972</u>	<u>14,972</u>
DEDUCTIONS		
Instruction	<u>21,800</u>	<u>21,800</u>
Total deductions	<u>21,800</u>	<u>21,800</u>
Change in net position	(6,828)	(6,828)
Net position - July 1, 2012	<u>85,555</u>	<u>85,555</u>
Net position - June 30, 2013	<u><u>\$ 78,727</u></u>	<u><u>\$ 78,727</u></u>

(See Auditor's Report and Accompanying Notes to the Financial Statements)

**LUDLOW INDEPENDENT SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2013**

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

REPORTING ENTITY

The Ludlow Independent Board of Education (Board), a five member group, is the level of government which has oversight responsibilities over all activities related to public elementary and secondary school education within the jurisdiction of the Ludlow Independent School District (District). The District receives funding from local, state and federal government sources and must comply with the commitment requirements of these funding source entities. However, the District is not included in any other governmental "reporting entity" as defined in Section 2100, Codification of Governmental Accounting and Financial Reporting Standards. Board members are elected by the public and have decision making authority, the power to designate management, the responsibility to develop policies which may influence operations, and primary accountability for fiscal matters.

The District, for financial purposes, includes all of the funds and account groups relevant to the operation of the Ludlow Independent Board of Education. The financial statements presented herein do not include funds of groups and organizations, which although associated with the school system, have not originated within the Board itself such as Band Boosters, Parent-Teacher Associations, etc.

The financial statements of the District include those of separately administered organizations that are controlled by or dependent on the Board. Control or dependence is determined on the basis of budget adoption, funding and appointment of the respective governing board.

Based on the foregoing criteria, the financial statements of the following organization are included in the accompanying financial statements:

Ludlow Independent School District Finance Corporation - The Board authorized the establishment of the Ludlow Independent School District Finance Corporation (a non-profit, non-stock, public and charitable corporation organized under the School Bond Act and KRS 273 and KRS 58.180) as an agency of the District for financing the costs of school building facilities. The Board Members of the Ludlow Independent Board of Education also comprise the Corporation's Board of Directors.

Basis of Presentation

District-wide Financial Statements – The statement of net position and the statement of activities display information about the District as a whole. These statements include the financial activities of the primary government, except for fiduciary funds. The statements distinguish between those activities of the District that are governmental and those that are considered business-type activities.

The district-wide statements are prepared using the economic resources measurement focus. This is the same approach used in the preparation of the proprietary fund financial statements but differs from the manner in which governmental fund financial statements are prepared. Governmental fund financial statements therefore include reconciliation with brief explanations to better identify the relationship between the district-wide statements and the statements for governmental funds.

**LUDLOW INDEPENDENT SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS (CONT'D)
FOR THE YEAR ENDED JUNE 30, 2013**

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

Basis of Presentation (cont'd)

The district-wide statement of activities presents a comparison between direct expenses and program revenues for each segment of the business-type activities of the District and for each function or program of the District's governmental activities. Direct expenses are those that are specifically associated with a service, program or department and are therefore clearly identifiable to a particular function. Program revenues include charges paid by the recipient of the goods or services offered by the program and grants and contributions that are restricted to meeting the operational or capital requirements of a particular program. Revenues that are not classified as program revenues are presented as general revenues of the District, with certain limited exceptions. The comparison of direct expenses with program revenues identifies the extent to which each business segment or governmental function is self-financing or draws from the general revenues of the District.

Fund Financial Statements – Fund financial statements report detailed information about the District. The focus of governmental and enterprise fund financial statements is on major funds rather than reporting funds by type. Each major fund is presented in a separate column. Non-major funds are aggregated and presented in a single column. Fiduciary funds are reported by fund type.

The accounting and reporting treatment applied to a fund is determined by its measurement focus. All governmental fund types are accounted for using a flow of current financial resources measurement focus. The financial statements for governmental funds are a balance sheet, which generally includes only current assets and current liabilities, and a statement of revenues, expenditures and changes in fund balances, which reports on the changes in total net position. Proprietary funds and fiduciary funds are reported using the economic resources measurement focus.

The District has the following funds:

I. Governmental Fund Types

- (A) The General Fund is the primary operating fund of the District. It accounts for financial resources used for general types of operations. This is a budgeted fund and any unrestricted fund balances are considered as resources available for use. This is a major fund of the District.
- (B) The Special Revenue Fund accounts for proceeds of specific revenue sources (other than expendable trusts or major capital projects) that are legally restricted to disbursements for specified purposes. It includes federal financial programs where unused balances are returned to the grantor at the close of specified project periods as well as the state grant programs. Project accounting is employed to maintain integrity for the various sources of funds. The separate projects of federally-funded grant programs are identified in the schedule of expenditures of federal awards included in this report on page 41. This is a major fund of the District.

**LUDLOW INDEPENDENT SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS (CONT'D)
FOR THE YEAR ENDED JUNE 30, 2013**

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

Basis of Presentation (cont'd)

I. Governmental Fund Types (cont'd)

(C) Capital Project Funds are used to account for financial resources to be used for the acquisition or construction of major capital facilities and equipment (other than those financed by Proprietary Funds).

1. The Support Education Excellence in Kentucky (SEEK) Capital Outlay Fund receives those funds designated by the state as Capital Outlay funds and is restricted for use in financing projects identified in the District's facility plan.
2. The Facility Support Program of Kentucky Fund (FSPK) accounts for funds generated by the building tax levy required to participate in the School Facilities Construction Commission's construction funding and state matching funds, where applicable. Funds may be used for projects identified in the District's facility plan.
3. The Construction Fund accounts for proceeds from sales of bonds and other revenues to be used for authorized construction. This is a major fund of the District.

II. Debt Service Fund

The Debt Service Fund is used to account for the accumulation of resources for, and the payment of, general long-term debt principal and interest and related cost; and, for the payment of interest on general obligation notes payable, as required by Kentucky Law.

III. Proprietary Fund (Enterprise Fund)

The School Food Service Fund is used to account for school food service activities, including the National School Lunch Program, which is conducted in cooperation with the U.S. Department of Agriculture (USDA). The Food Service fund is a major fund of the District.

IV. Fiduciary Fund Type (includes agency and trust funds)

The Trust/Agency Fund accounts for activities of student groups and other types of activities requiring clearing accounts. These funds are accounted for in accordance with Uniform Program of Accounting for School Activity Funds.

The District applies all Governmental Accounting Standards Board (GASB) pronouncements to proprietary funds as well as the Financial Accounting Standards Board (FASB) pronouncements issued on or before November 30, 1989 unless those pronouncements conflict with or contradict GASB pronouncements.

**LUDLOW INDEPENDENT SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS (CONT'D)
FOR THE YEAR ENDED JUNE 30, 2013**

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

Basis of Accounting

The basis of accounting determines when transactions are recorded in the financial records and reported on the financial statements. District-wide financial statements are prepared using the accrual basis of accounting. Governmental funds use the modified accrual basis of accounting. Proprietary and fiduciary funds also use the accrual basis of accounting.

Revenues – Exchange and Non-exchange Transactions – Revenues resulting from exchange transactions, in which each party receives essentially equal value, is recorded on the accrual basis when the exchange takes place. On a modified accrual basis, revenues are recorded in the fiscal year in which the resources are measurable and available. Available means that the resources will be collected within the current fiscal year or are expected to be collected soon enough thereafter to be used to pay liabilities of the current fiscal year. For the District, available means expected to be received within sixty days of the fiscal year end.

No exchange transactions, in which the District receives value without directly giving equal value in return, include property taxes, grants, entitlements and donations. On an accrual basis, revenue from property taxes is recognized in the fiscal year for which the taxes are levied. Revenue from grants, entitlements and donations is recognized in the fiscal year in which all eligibility requirements have been satisfied. Eligibility requirements include timing requirements, which specify the year when the resources are required to be used or the fiscal year when use is first permitted, matching requirements, in which the District must provide local resources to be used for a specified purpose, and expenditure requirements, in which the resources are provided to the District on a reimbursement basis. On a modified accrual basis, revenues from nonexchange transactions must also be available before they can be recognized.

Deferred Revenue – Deferred revenue arises when assets are recognized before revenue recognition criteria have been satisfied.

Grants and entitlements received before the eligibility requirements are met are recorded as deferred revenue.

Expenses/Expenditures – On the accrual basis of accounting, expenses are recognized at the time they are incurred.

The measurement focus of governmental fund accounting is on decreases in net financial resources (expenditures) rather than expenses. Expenditures are generally recognized in the accounting period in which the related fund liability is incurred, if measurable. Allocations of cost, such as depreciation, are not recognized in governmental funds.

**LUDLOW INDEPENDENT SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS (CONT'D)
FOR THE YEAR ENDED JUNE 30, 2013**

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

Taxes

Property Tax Revenues – Property taxes are levied each September on the assessed value listed as of the prior January 1, for all real and personal property in the county. The billings are considered due upon receipt by the taxpayer; however, the actual date is based on a period ending 30 days after the tax bill mailing. Property taxes collected are recorded as revenues in the fiscal year for which they were levied. All taxes collected are initially deposited into the General Fund and then transferred to the appropriate fund.

The District levies a utility gross receipts license tax in the amount of 3% of the gross receipts derived from the furnishings, within the county, of telephonic and telegraphic communications services, cablevision services, electric power, water and natural, artificial and mixed gas.

In addition, the District levies an occupational license tax of .5% on salaries, wages, commissions, and other compensation of residents of the District who work and perform services in the county.

Budgetary Process

Budgetary Basis of Accounting: The District's budgetary process accounts for certain transactions on a basis other than Generally Accepted Accounting Principles (GAAP) of the United States of America. The major differences between the budgetary basis and the GAAP basis are:

Revenues are recorded when received in cash (budgetary) as opposed to when susceptible to accrual (GAAP).

Expenditures are recorded when paid in cash (budgetary) as opposed to when susceptible to accrual (GAAP).

Cash and Cash Equivalents

The District considers demand deposits, money market funds, and other investments with an original maturity of 90 days or less, to be cash equivalents.

Inventories

Supplies and materials are charged to expenditures when purchased, except for inventories in the Proprietary Fund, which are capitalized at the lower of cost or market.

**LUDLOW INDEPENDENT SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS (CONT'D)
FOR THE YEAR ENDED JUNE 30, 2013**

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

Capital Assets

General capital assets are those assets not specifically related to activities reported in the proprietary funds. These assets generally result from expenditures in the governmental funds. These assets are reported in the governmental activities column of the district-wide statement of net assets but are not reported in the fund financial statements. Capital assets utilized by the proprietary funds are reported both in the business-type activities column of the district-wide statement of net assets and in the respective funds.

All capital assets are capitalized at cost (or estimated historical cost) and updated for additions and retirements during the year. Donated fixed assets are recorded at their fair market values as of the date received. The District maintains a capitalization threshold of one thousand dollars with the exception of computers, digital cameras and real property for which there is no threshold. The District does not possess any infrastructure. Improvements are capitalized; the cost of normal maintenance and repairs that do not add to the value of the asset or materially extend an asset's life are not.

All reported capital assets are depreciated. Improvements are depreciated over the remaining useful lives of the related capital assets. Depreciation is computed using the straight-line method over the following useful lives for both general capital assets and proprietary fund assets:

<u>Description</u>	<u>Governmental Activities Estimated Lives</u>
Buildings and improvements	25-50 years
Land improvements	20 years
Technology equipment	5 years
Vehicles	5-10 years
Audio-visual equipment	15 years
Food service equipment	10-12 years
Furniture and fixtures	7 years
Other	10 years

Accumulated Unpaid Sick Leave Benefits

Upon retirement from the school system, an employee will receive from the District an amount equal to 30% of the value of accumulated sick leave. Sick leave benefits are accrued as a liability using the termination payment method. An accrual for earned sick leave is made to the extent that it is probable that the benefits will result in termination payments. The liability is based on the District's experience of making termination payments. The entire compensated absence liability is reported on the district-wide financial statements.

Interfund Balances

On fund financial statements, receivables and payables resulting from short-term interfund loans are classified as "interfund receivables/payables". These amounts are eliminated in the governmental and business-type activities columns of the statements of net assets, except for the net residual amounts due between governmental and business-type activities, which are presented as internal balances.

**LUDLOW INDEPENDENT SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS (CONT'D)
FOR THE YEAR ENDED JUNE 30, 2013**

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

Accrued Liabilities and Long-Term Obligations

All payables, accrued liabilities and long-term obligations are reported in the district-wide financial statements, and all payables, accrued liabilities and long-term obligations payable from proprietary funds are reported on the proprietary fund financial statements.

In general, payables and accrued liabilities that will be paid from governmental funds are reported on the governmental fund financial statements regardless of whether they will be liquidated with current resources. However, claims and judgments, the non-current portion of capital leases, accumulated sick leave, contractually required pension contributions and special termination benefits that will be paid from governmental funds are reported as a liability in the fund financial statements only to the extent that they will be paid with current, expendable, available financial resources. In general, payments made within sixty days after year-end are considered to have been made with current available financial resources. Bonds and other long-term obligations that will be paid from governmental funds are not recognized as a liability in the fund financial statements until due.

Fund Balance Reserves

Beginning with fiscal year 2011, the District implemented GASB Statement 54, "Fund Balance Reporting and Governmental Fund Type Definitions." This Statement provides more clearly defined fund balance categories to make the nature and extent of the constraints placed on the District's fund balance more transparent. The following classifications describe the relative strength of the spending constraints placed on the purposes for which resources can be used:

Nonspendable fund balance - amounts that are not in a spendable form (such as inventory) or are required to be maintained intact;

Restricted fund balance – amounts constrained to specific purposes by their providers (such as grantors, bondholders and higher levels of government), through constitutional provisions, or by enabling legislation.

Committed fund balance – amounts constrained to specific purposes by the District itself, using its decision-making authority; to be reported as committed, amounts cannot be used for any other purpose unless the District takes the action to remove or change the constraint.

Assigned fund balance – amounts the District intends to use for specific purpose (such as encumbrances); intent can be expressed by the District or by an official or body to which the District delegates the authority.

Unassigned fund balance – amounts that are available for purpose; positive amounts are reported only in the General fund.

It is the Board's practice to liquidate funds when conditions have been met releasing these funds from legal, contractual, Board or managerial obligations, using restricted funds first, followed by committed funds, assigned funds, then unassigned funds.

Encumbrances are not liabilities and are not recorded as expenditures until receipt of material or service. Encumbrances remaining open at the end of the fiscal year are automatically re-budgeted in the following fiscal year. Encumbrances are considered a managerial assignment of fund balance in the governmental funds balance sheet.

**LUDLOW INDEPENDENT SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS (CONT'D)
FOR THE YEAR ENDED JUNE 30, 2013**

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

Net Positions

Net position represents the difference between assets and liabilities. Net position invested in capital assets, net of related debt, consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any borrowings used for the acquisition, construction or improvement of those assets. Net position is reported as restricted when there are limitations imposed on their use either through the enabling legislation adopted by the District or through external restrictions imposed by creditors, grantors or laws or regulations of other governments.

Operating Revenues and Expenses

Operating revenues are those revenues that are generated directly from the primary activity of the proprietary funds. For the District, those revenues are primarily charges for meals provided by the various schools.

Interfund Activity

Exchange transactions between funds are reported as revenues in the seller funds and as expenditures/expenses in the purchaser funds. Flows of cash or goods from one fund to another without a requirement for repayment are reported as interfund transfers. Interfund transfers are reported as other financing sources/uses in governmental funds and after nonoperating revenues/expenses in proprietary funds. Repayments from funds responsible for particular expenditures/expenses to the funds that initially paid for them are not presented on the financial statements.

NOTE B - ESTIMATES

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect reported amounts of assets, liabilities, designated fund balances, and disclosure of contingent assets and liabilities at the date of the general purpose financial statements, and the reported amounts of revenues and expenditures during the reporting period. Actual results could differ from those estimates.

NOTE C - CASH AND CASH EQUIVALENTS

At year end, the District had on deposit cash and cash equivalents totaling \$516,597. Of the total cash balance, \$250,000 was covered by Federal Depository Insurance Corporation (FDIC), with the remainder covered by a collateral agreement and collateral held by the pledging banks' trust departments in the District's name. Cash equivalents are funds temporarily invested in securities with a maturity of 90 days or less.

Cash and cash equivalents at June 30, 2013 consisted of the following:

	<u>Bank Balance</u>	<u>Book Balance</u>
Bank of Kentucky	\$ 516,597	\$ 285,295

Allocation per financial statements:

Governmental funds	\$ 103,630
Proprietary funds	3,136
Trust/Agency funds	79,727
Activity funds	98,802
	<hr/>
	\$ 285,295

**LUDLOW INDEPENDENT SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS (CONT'D)
FOR THE YEAR ENDED JUNE 30, 2013**

NOTE D - CAPITAL ASSETS

Capital asset activity for the fiscal year ended June 30, 2013 was as follows:

<u>Governmental Activities</u>	Balance June 30, 2012	Additions	Deductions	Balance June 30, 2013
Land	\$ 391,300	\$ -	\$ -	\$ 391,300
Land improvements	112,189	-	-	112,189
Buildings and improvements	8,228,318	49,996	-	8,278,314
Technology equipment	1,154,993	95,898	7,120	1,243,771
Vehicles	192,115	-	-	192,115
General equipment	209,716	5,525	5,525	209,716
Totals at historical cost	10,288,631	151,419	12,645	10,427,405
Less: accumulated depreciation				
Land improvements	87,272	2,610	-	89,882
Buildings and improvements	4,135,694	215,120	-	4,350,814
Technology equipment	974,843	89,435	7,023	1,057,255
Vehicles	67,533	20,877	-	88,410
General equipment	147,009	8,277	-	155,286
Total accumulated depreciation	5,412,351	336,319	7,023	5,741,647
Governmental activities capital assets - net	<u>\$ 4,876,280</u>	<u>\$ (184,900)</u>	<u>\$ 5,622</u>	<u>\$ 4,685,758</u>
<u>Business - Type Activities</u>				
General equipment	\$ 61,212	\$ 4,697	\$ -	\$ 65,909
Buildings and improvements	51,659	-	-	51,659
Technology equipment	7,796	-	-	7,796
Totals at historical cost	120,667	4,697	-	125,364
Less: accumulated depreciation				
General equipment	53,586	2,367	-	55,953
Buildings and improvements	11,070	7,380	-	18,450
Technology equipment	5,370	763	-	6,133
Total accumulated depreciation	70,026	10,510	-	80,536
Business - type activities capital assets - net	<u>\$ 50,641</u>	<u>\$ (5,813)</u>	<u>\$ -</u>	<u>\$ 44,828</u>

**LUDLOW INDEPENDENT SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS (CONT'D)
FOR THE YEAR ENDED JUNE 30, 2013**

NOTE E - LEASE OBLIGATIONS AND BONDED DEBT

The amount shown in the accompanying financial statements as lease obligations represents the District's future obligations to make lease payments relating to the bonds issued.

The original amount of each issue, the issue date, and interest rates are summarized below:

<u>Issue Date</u>	<u>Proceeds</u>	<u>Rates</u>
July 30, 2003	\$ 405,000	3.00%
May 1, 2006	\$ 1,085,000	3.65%-4.30%
July 1, 2007	\$ 425,000	3.00%-4.10%
December 1, 2007	\$ 915,000	3.00%-3.75%
March 1, 2009	\$ 1,200,000	2.10%-3.30%
December 1, 2009	\$ 135,959	1.00%-3.00%

The District, through the General Fund (including The Support Education Excellence in Kentucky (SEEK) Capital Outlay Fund) is obligated to make lease payments in amounts sufficient to satisfy debt service requirements on bonds issued by the Ludlow Independent School District Finance Corporation to construct school facilities.

The District entered into "participation agreements" with the School Facility Construction Commission (Commission). The Commission was created by the Kentucky General Assembly for the purpose of assisting local school districts in meeting school construction needs. Note P sets forth the amount to be paid by the District and the Commission for each year until maturity of all bond issues. The liability for the total bond amount remains with the District and, as such, the total principal has been recorded in the financial statements.

All issues may be called prior to maturity and redemption premiums are specified in each issue. Assuming no bonds are called prior to scheduled maturity, the minimum obligations of the District, including amounts to be paid by the Commission, at June 30, 2013, for debt service (principal and interest) are reported on Note P.

NOTE F - ACCUMULATED UNPAID SICK LEAVE BENEFITS

Upon providing proof of qualification as an annuitant from the Kentucky Teachers' Retirement System, a certified employee will receive from the District an amount equal to 30% of the value of accumulated sick leave. At June 30, 2013, this amount totaled \$97,376 for those certified employees over the age of fifty or having 27 or more years of experience. The board has not reserved an amount in its general fund for unpaid sick leave benefits.

**LUDLOW INDEPENDENT SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS (CONT'D)
FOR THE YEAR ENDED JUNE 30, 2013**

NOTE G- RETIREMENT PLANS

Kentucky Teachers Retirement System

The Kentucky Local School District contributes to the Teachers' Retirement System of Kentucky (KTRS), a cost-sharing, multiple employer defined benefit pension plan. KTRS administers retirement and disability annuities, and death and survivor benefits to employees and beneficiaries of employees of the public school systems and other public educational agencies in Kentucky. KTRS requires that members of KTRS occupy a position requiring either a four (4) year college degree or certification by KY Department of Education. Job classifications that permit experience to substitute for either of these requirements do not participate in KTRS.

Funding policy – Contribution rates are established by Kentucky Revised Statutes. Members are required to contribute 10.855% of their salaries to KTRS. The Commonwealth of Kentucky is required to contribute 13.105% of salaries for members in a state retirement before July 1, 2008 and 14.105% of salaries for members who started their account after July 1, 2008. The federal program for any salaries paid by that program pays the matching contributions. The contribution requirement for KTRS for the year ended June 30, 2013, was \$540,905, which consisted of \$72,559 from the District and \$468,346 from the employees. Total contributions for the year ended June 30, 2012 and 2011 were \$510,828 and \$510,458, respectively. The contributions have been contributed in full for fiscal years 2013, 2012 and 2011.

County Employees Retirement System

Classified employees who work an average of 80 hours per month over the actual days worked during the school year participate in the County Employees Retirement System (CERS). This is a cost sharing, multiple-employer, public employers retirement plan created and maintained by Kentucky legislature and provides retirement, death and disability benefits to Plan members.

Participating employees contribute 5% of creditable compensation. Participants hired after August 31, 2008 are required to contribute 6%. Matching contributions are made by the state at a rate as required by the Board of Trustees to be necessary for the actuarial soundness per Kentucky Revised Statute 61.565. The contribution requirement for CERS for the year ended June 30, 2013, was \$204,522, which consisted of \$161,909 from the District and \$42,613 from the employees. Total contributions for the year ended June 30, 2012 and 2011 were \$202,483 and \$186,048, respectively. The contributions have been contributed in full for fiscal years 2013, 2012 and 2011.

The District's total payroll for the year was \$5,143,375. The payroll for employees covered under KTRS was \$4,319,097 and for CERS was \$828,178.

Benefits under both plans will vary based on final compensation, years of service, and other factors as fully described in the plan documents.

The "pension benefit obligation" is a standardized disclosure measure of the present value of pension benefits which is adjusted for the effects of projected salary increases and step-rate benefits that are estimated to be payable in the future as a result of employee service to date. The measure, which is the actuarial present value of credited projected benefits, is intended to help users assess the pensions' funding status on a going-concern basis, assess progress made in accumulating sufficient assets to pay benefits when due, and make comparisons among the plans and employers.

KTRS and CERS do not make separate measurements of assets and pension benefit obligations for individual employers. KTRS and CERS both issue a publicly available financial report that includes all financial statements and required supplementary information. The reports can be obtained in writing from the Kentucky Teachers' Retirement System, 479 Versailles Road, Frankfort, KY 40601-3800 and the County Employee Retirement System, 1260 Louisville Road, Perimeter Park West, Frankfort, KY 40601.

**LUDLOW INDEPENDENT SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS (CONT'D)
FOR THE YEAR ENDED JUNE 30, 2013**

NOTE H- CONTINGENCIES

Grant Fund Approval

The District receives funding from federal, state, and local government agencies and private contributions. These funds are to be used for designated purposes only. For government agency grants, if the grantor's review indicates that the funds have not been used for the intended purpose, the grantors may request a refund of monies advanced or refuse to reimburse the District for its disbursements. The amount of such future refunds and unreimbursed disbursements, if any, is not expected to be significant. Continuation of the District's grant programs is predicated upon the grantors' satisfaction that the funds provided are being spent as intended and the grantors' intent to continue the programs.

NOTE I- INSURANCE AND RELATED ACTIVITIES

The District is exposed to various forms of loss of assets associated with the risks of fire, personal liability, theft, vehicular accidents, errors and omissions, fiduciary responsibility, etc. Each of these risk areas are covered through the purchase of commercial insurance. The District has purchased certain policies which are retrospectively rated, which includes worker's compensation insurance.

NOTE J- RISK MANAGEMENT

The District is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. To obtain insurance for errors and omissions, and general liability coverage, the District participates in the Kentucky School Boards Insurance Trust Liability Insurance Fund. These public entity risk pools operate as common risk management and insurance programs for all school districts and other tax supported educational agencies of Kentucky who are members of the Kentucky School Boards Association. The District pays an annual premium to each fund for coverage. The Liability Insurance fund pays insurance premiums of the participating members established by the insurance carrier. The Trust can terminate coverage if it is unable to obtain acceptable excess general liability coverage and for any reason by giving ninety (90) days notice. In the event the Trust terminated coverage, any amount remaining in the Fund (after payment of operational and administrative costs and claims for which coverage was provided) would be returned to the member on a pro rata basis.

The District purchases unemployment and workers' compensation insurance through the Kentucky School Boards Insurance Trust Unemployment Compensation Fund; however, risk has not been transferred to such fund. In addition, the District continues to carry commercial insurance for all other risks of loss. Settled claims resulting from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years.

NOTE K – CONTINGENT LIABILITY

The District is a participant in the Kentucky School Board Insurance Trust in which the District purchases general liability and workers' compensation insurance. As of June 30, 2013, the District has been notified of a deficit in the trust and has been given a preliminary assessment of its portion of the deficit of \$79,577. This contingent liability has been recorded in the District Wide Financial Statements but not included in the Governmental Financial Statements.

**LUDLOW INDEPENDENT SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS (CONT'D)
FOR THE YEAR ENDED JUNE 30, 2013**

NOTE L - DEFICIT OPERATING/FUND BALANCES

There are no funds of the District that currently have a deficit fund balance. However, the following funds have operations that resulted in a current year deficit of revenues over expenditures, not including interfund transfers. Special Revenue fund deficit was supplemented with transfers from the General fund.

General Fund	\$	525,976
Special Revenue Fund	\$	12,403
Trust Agency Fund	\$	6,828
Ludlow Elementary	\$	664

NOTE M - COBRA

Under COBRA, employers are mandated to notify terminated employees of available continuing insurance coverage. Failure to comply with this requirement may put the District at risk for a substantial loss (contingency).

NOTE N - TRANSFER OF FUNDS

The following transfers were made during the year.

<u>Type</u>	<u>From Fund</u>	<u>To Fund</u>	<u>Purpose</u>	<u>Amount</u>
Operating	51	1	Indirect Costs	\$ 22,467
Operating	320	1	Operating	\$ 14,369
Operating	310	1	Operating	\$ 87,578
Operating	1	2	Matching	\$ 12,403
Operating	1	400	Debt Service	\$ 21,002
Operating	320	400	Debt Service	\$ 273,384

NOTE O - ON-BEHALF PAYMENTS

For the year ended June 30, 2013 total payments of \$1,388,351 were made for life insurance, health insurance, KTRS matching and administrative fees by the Commonwealth of Kentucky on behalf of the District. These payments were recognized as on-behalf payments and recorded in the appropriate revenue and expense accounts on the statement of activities.

General Fund	\$	1,244,315
Debt Service		121,037
Food Service Fund		22,999
		<hr/>
Total On-Behalf Payments	\$	<u>1,388,351</u>

**LUDLOW INDEPENDENT SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS (CONT'D)
FOR THE YEAR ENDED JUNE 30, 2013**

NOTE P - MATURITY OF GENERAL LONG-TERM OBLIGATIONS

<u>2003, 2006, 2007, 2007B, 2009 and 2009 Kista Issues</u>					
<u>FISCAL YEAR</u>	<u>LUDLOW INDEPENDENT SCHOOL DISTRICT</u>		<u>KY SCHOOL FACILITIES CONSTRUCTION COMMISSION</u>		<u>TOTAL REQUIREMENTS</u>
	<u>PRINCIPAL</u>	<u>INTEREST</u>	<u>PRINCIPAL</u>	<u>INTEREST</u>	
2013-2014	\$ 228,620	\$ 63,717	\$ 70,600	\$ 53,469	\$ 416,406
2014-2015	233,429	56,325	76,224	50,684	416,662
2015-2016	243,229	48,406	76,873	47,768	416,276
2016-2017	257,992	39,684	82,548	44,738	424,962
2017-2018	266,733	30,414	83,267	41,506	421,920
2018-2019	235,984	21,533	84,016	38,178	379,711
2019-2020	50,204	16,417	89,796	34,720	191,137
2020-2021	49,392	14,359	95,608	31,020	190,379
2021-2022	53,527	12,285	96,473	27,155	189,440
2022-2023	52,625	10,036	102,375	23,155	188,191
2023-2024	56,685	7,826	103,315	18,993	186,819
2024-2025	60,683	5,389	109,317	14,641	190,030
2025-2026	64,637	2,779	115,363	10,040	192,819
2026-2027	-	-	95,000	5,190	100,190
2027-2028	-	-	80,000	1,630	81,630
	<u>\$ 1,853,740</u>	<u>\$ 329,170</u>	<u>\$ 1,360,775</u>	<u>\$ 442,887</u>	<u>\$ 3,986,572</u>

NOTE Q - SUBSEQUENT EVENTS

Subsequent events were considered through November 15, 2012, which represents the date of release of our report.

**LUDLOW INDEPENDENT SCHOOL DISTRICT
COMBINING BALANCE SHEET - NONMAJOR GOVERNMENTAL FUNDS
AS OF JUNE 30, 2013**

	CAPITAL OUTLAY FUND	BUILDING FUND	DEBT SERVICE FUND	TOTAL NONMAJOR GOVERNMENT FUNDS
ASSETS				
CURRENT				
Cash and cash equivalents	\$ 22,668	\$ 1,933	\$ -	\$ 24,601
Total current	<u>\$ 22,668</u>	<u>\$ 1,933</u>	<u>\$ -</u>	<u>\$ 24,601</u>
LIABILITIES AND FUND BALANCES				
LIABILITIES:				
Accounts payable	\$ -	\$ -	\$ -	\$ -
Total current	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
FUND BALANCES				
Restricted:				
KSFCC Escrow	22,668	1,933	-	24,601
Unassigned	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total fund balance	<u>22,668</u>	<u>1,933</u>	<u>-</u>	<u>24,601</u>
Total liabilities and fund balance	<u>\$ 22,668</u>	<u>\$ 1,933</u>	<u>\$ -</u>	<u>\$ 24,601</u>

(See Auditors' Report and Accompanying Notes to the Financial Statements)

LUDLOW INDEPENDENT SCHOOL DISTRICT
COMBINING STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN
FUND BALANCES - NONMAJOR GOVERNMENTAL FUNDS
FOR THE YEAR ENDED JUNE 30, 2013

	CAPITAL OUTLAY FUND	BUILDING FUND	DEBT SERVICE FUND	TOTAL NONMAJOR GOVERNMENT FUNDS
REVENUES:				
Taxes	\$ -	\$ 122,348	\$ -	\$ 122,348
Earnings on investments	-	-	-	-
State sources	77,545	158,752	121,037	357,334
Federal sources	-	-	-	-
Other sources	-	-	-	-
Total revenues	<u>77,545</u>	<u>281,100</u>	<u>121,037</u>	<u>479,682</u>
EXPENDITURES:				
Instructional	-	-	-	-
Student support services	-	-	-	-
Staff support services	-	-	-	-
District administration	-	-	-	-
School administration	-	-	-	-
Business support services	-	-	-	-
Plant operation and maintenance	-	-	-	-
Student transportation	-	-	-	-
Central office	-	-	-	-
Community service operations	-	-	-	-
Facility acquisition and construction	-	-	-	-
Debt service:				
Principal	-	-	288,818	288,818
Interest	-	-	126,604	126,604
Total expenditures	<u>-</u>	<u>-</u>	<u>415,422</u>	<u>415,422</u>
Excess (deficit) of revenues over expenditures	<u>77,545</u>	<u>281,100</u>	<u>(294,385)</u>	<u>64,260</u>
OTHER FINANCING SOURCES(USES):				
Proceeds from sale of bonds	-	-	-	-
Proceeds from sale of assets	-	-	-	-
Operating transfers in	-	-	294,385	294,385
Operating transfers out	<u>(87,578)</u>	<u>(287,753)</u>	<u>-</u>	<u>(375,331)</u>
Total other financing sources(uses)	<u>(87,578)</u>	<u>(287,753)</u>	<u>294,385</u>	<u>(80,946)</u>
Net change in fund balance	(10,033)	(6,653)	-	(16,686)
Fund balance, July 1, 2012	<u>32,701</u>	<u>8,586</u>	<u>-</u>	<u>41,287</u>
Fund balance, June 30, 2013	<u>\$ 22,668</u>	<u>\$ 1,933</u>	<u>\$ -</u>	<u>\$ 24,601</u>

(See Auditors' Report and Accompanying Notes to the Financial Statements)

**LUDLOW INDEPENDENT SCHOOL DISTRICT
STATEMENT OF RECEIPTS, DISBURSEMENTS AND FUND BALANCES
BOND AND INTEREST REDEMPTION FUNDS
FOR THE YEAR ENDED JUNE 30, 2013**

	<u>ISSUE OF 2003 Kista</u>	<u>ISSUE OF 2006</u>	<u>ISSUE OF 2007</u>	<u>ISSUE OF 2007B</u>
Cash at July 1, 2012	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Receipts:				
Transfers and miscellaneous deposits	<u>37,802</u>	<u>88,380</u>	<u>29,908</u>	<u>64,676</u>
Disbursements:				
Bonds paid	30,000	50,000	15,000	35,000
Interest coupons	7,802	38,380	14,908	29,676
Transfers and miscellaneous	-	-	-	-
Call fee	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total disbursements	<u>37,802</u>	<u>88,380</u>	<u>29,908</u>	<u>64,676</u>
Excess of receipts over disbursements	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Cash at June 30, 2013	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Accounts Receivable and Payable:				
Matured interest and bonds outstanding	-	-	-	-
Due from other funds	-	-	-	-
Due to other funds	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total accounts receivable and payable	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Fund balance at June 30, 2013	<u><u>\$ -</u></u>	<u><u>\$ -</u></u>	<u><u>\$ -</u></u>	<u><u>\$ -</u></u>

	<u>ISSUE OF 2009 Kista</u>	<u>ISSUE OF 2009</u>	<u>Total</u>
Cash at July 1, 2012	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Receipts:			
Transfers and miscellaneous deposits	<u>21,001</u>	<u>173,655</u>	<u>415,422</u>
Disbursements:			
Bonds paid	18,818	140,000	288,818
Interest coupons	2,183	33,655	126,604
Transfers and miscellaneous	-	-	-
Call fee	<u>-</u>	<u>-</u>	<u>-</u>
Total disbursements	<u>21,001</u>	<u>173,655</u>	<u>415,422</u>
Excess of receipts over disbursements	<u>-</u>	<u>-</u>	<u>-</u>
Cash at June 30, 2013	<u>-</u>	<u>-</u>	<u>-</u>
Accounts Receivable and Payable:			
Matured interest and bonds outstanding	-	-	-
Due from other funds	-	-	-
Due to other funds	<u>-</u>	<u>-</u>	<u>-</u>
Total accounts receivable and payable	<u>-</u>	<u>-</u>	<u>-</u>
Fund balance at June 30, 2013	<u><u>\$ -</u></u>	<u><u>\$ -</u></u>	<u><u>\$ -</u></u>

(See Auditors' Report and Accompanying Notes to the Financial Statements)

LUDLOW INDEPENDENT SCHOOL DISTRICT
STATEMENT OF RECEIPTS, DISBURSEMENTS AND FUND BALANCES
LUDLOW HIGH SCHOOL ACTIVITY FUNDS
FOR THE YEAR ENDED JUNE 30, 2013

	FUND BALANCE July 01, 2012	RECEIPTS	DISBURSEMENTS	FUND BALANCE June 30, 2013
ACT	\$ 68	\$ 900	\$ 945	\$ 23
Athletic A.D.	2,266	36,264	33,441	5,089
Band	1,580	13,663	10,451	4,792
Band soft drinks	2,705	1,331	102	3,934
Baseball	-	2,520	845	1,675
Book rental	201	5,899	-	6,100
Boy's basketball	49	2,486	2,535	-
Central office	1,886	1,248	3,028	106
Class of 2012	915	-	915	-
Class of 2013	1,813	2,913	3,215	1,511
Class of 2014	142	8,910	8,342	710
Class of 2015	334	-	132	202
Class of 2016	-	400	163	237
Drama club	870	1,582	981	1,471
FBLA	356	-	-	356
FCA	364	392	574	182
Football	5,348	21,276	26,297	327
Girl's basketball	3,346	19,849	12,388	10,807
Holding	-	4,716	4,716	-
HS Cheerleading	2,655	7,758	8,424	1,989
J Logan Memorial Fund	1,481	409	1,890	-
Library	711	1,202	692	1,221
Library store	1,474	31	-	1,505
Life Skills	500	64	48	516
Literary magazine	32	-	-	32
Ludlow Christian scholarship	21,726	30	3,000	18,756
March madness	159	576	404	331
Middle school cheerleading	-	632	632	-
Middle school drama	718	1,574	1,127	1,165
Middle school basketball	172	3,133	2,425	880
Middle school football	1,000	1,282	2,126	156
National Honor Society	4,550	4,580	7,059	2,071
Postage	253	-	-	253
Principal's office	549	3,513	3,026	1,036
SADD	383	948	946	385
Soccer	120	1,702	1,558	264
Softball	107	6,250	5,748	609
Spirit Shop	1,870	932	1,227	1,575
Staff generated	261	80	119	222
Student Council	279	1,723	1,435	567
Student fees	380	10,295	9,555	1,120
Teacher Miscellaneous	525	40	192	373
Technology	1,951	1,615	32	3,534
Track	645	2,485	3,125	5
Travel club	801	-	-	801
Volleyball	734	6,547	6,465	816
Yearbook	3,201	3,743	5,057	1,887
Total	<u>\$ 69,480</u>	<u>\$ 185,493</u>	<u>\$ 175,382</u>	<u>\$ 79,591</u>

(See Auditors' Report and Accompanying Notes to the Financial Statements)

**LUDLOW INDEPENDENT SCHOOL DISTRICT
STATEMENT OF RECEIPTS, DISBURSEMENTS AND FUND BALANCES
SCHOOL ACTIVITY FUNDS
FOR THE YEAR ENDED JUNE 30, 2013**

	<u>LUDLOW ELEMENTARY SCHOOL</u>	<u>TOTAL</u>
Fund balance at July 1, 2012	\$ 19,875	\$ 19,875
Add: receipts	28,532	28,532
Less: disbursements	<u>(29,196)</u>	<u>(29,196)</u>
Fund balance at June 30, 2013	<u><u>\$ 19,211</u></u>	<u><u>\$ 19,211</u></u>

(See Auditor's Report and Accompanying Notes to the Financial Statements)

**LUDLOW INDEPENDENT SCHOOL DISTRICT
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2013**

	CFDA NUMBER	PASS- THROUGH GRANTOR'S NUMBER	EXPENDITURES	PROGRAM/ CLUSTER TOTAL
U.S. DEPARTMENT OF EDUCATION				
<i>Passed through the Kentucky Department of Education:</i>				
Title I - Grants to Local Educational Agencies	84.010	3100002 11	\$ 20,094	
Title I - Grants to Local Educational Agencies	84.010	3100002 12	215,022	\$ 235,116
Title II - Improving Teacher Quality State Grants	84.367	3230002 12	41,450	41,450
Education Jobs Fund	84.410	EJOB00 10	1,495	1,495
Race to the Top	84.413	3960002 11	1,047	1,047
Special Education Cluster:				
Special Education Grants to States	84.027	3810002 11	16,035	
Special Education Grants to States	84.027	3810002 12	147,913	
Special Education Preschool Grants	84.173	3800002 12	12,252	
Special Education Preschool Grants	84.173	3800002 11	3,894	180,094
Total U.S. Department of Education			<u>459,202</u>	<u>459,202</u>
U.S. DEPARTMENT OF AGRICULTURE				
<i>Passed through the Kentucky Department of Education:</i>				
Child Nutrition Cluster:				
National School Lunch Program	10.555	7750002 12	42,544	
National School Lunch Program	10.555	7750002 13	199,699	
School Breakfast Program	10.553	7760005 12	10,364	
School Breakfast Program	10.553	7760005 13	48,248	
Summer Food Service Program for Children	10.559	7691024 12	2,201	
Summer Food Service Program for Children	10.559	7740023 12	21,053	
<i>Passed through the Kentucky Department of Agriculture:</i>				
National School Lunch Program - Food Donation	10.555	059-0203	31,081	355,190
Total U.S. Department of Agriculture			<u>355,190</u>	<u>355,190</u>
Total Expenditures of Federal Awards			<u>\$ 814,392</u>	<u>\$ 814,392</u>

**LUDLOW INDEPENDENT SCHOOL DISTRICT
NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2013**

NOTE A – BASIS OF PRESENTATION

The accompanying Schedule of Expenditures of Federal Awards includes the federal grant activity of the Ludlow Independent School District under programs of the federal government for the year ended June 30, 2013, and is reported on the accrual basis of accounting. The information in this schedule is presented in accordance with the requirements of *U.S. OMB Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations*. Because the Schedule presents only a selected portion of the operations of Ludlow Independent School District, it is not intended to and does not present the financial position, changes in net position or cash flows of the District.

NOTE B – FOOD DISTRIBUTION

Nonmonetary assistance is reported in the schedule at the fair value of the commodities disbursed. For the year ended June 30, 2013, the District reported food commodities expended in the amount of \$31,081.

**LUDLOW INDEPENDENT SCHOOL DISTRICT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2013**

SUMMARY OF AUDITORS' RESULTS

1. The Independent Auditors' Report expresses an unmodified opinion on the basic financial statements of the Ludlow Independent School District.
2. No significant deficiencies were disclosed during the audit of the financial statements or reported in the Independent Auditors' Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with Government Auditing Standards. No material weaknesses are reported.
3. No instances of noncompliance material to the financial statements of the Ludlow Independent School District, which would be required to be reported in accordance with Government Auditing Standards, were disclosed during the audit.
4. No significant deficiencies in internal control over major federal award programs were disclosed during the audit or reported in the Independent Auditors' Report on Compliance for each Major Program and on Internal Control over Compliance Required by OMB Circular A-133. No material weaknesses are reported.
5. The Independent Auditors' Report on Compliance for Major Program and on Internal Control over Compliance Required by OMB Circular A-133 for Ludlow Independent School District expresses an unmodified opinion on all major federal programs.
6. The audit did not disclose any findings required to be reported under section 510(a) of OMB Circular A-133.
7. The programs tested as major programs were: National School Lunch Program, CFDA #10.555; School Breakfast Program, CFDA #10.553 and Summer Food Service Program for Children, CFDA #10.559, National School Lunch Program-Food Donation, CFDA #10.555; and Title I – Grants to Local Educational Agencies, CFDA #84.101.
8. The threshold used for distinguishing between Type A and B programs was \$300,000.
9. Ludlow Independent School District does not qualify as a low-risk auditee.

FINDINGS – FINANCIAL STATEMENTS AUDIT

None

FINDINGS AND QUESTIONED COSTS – MAJOR FEDERAL AWARD PROGRAMS AUDIT

None

SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS

None

**LUDLOW INDEPENDENT SCHOOL DISTRICT
BOARD MEMBERS AND ADMINISTRATIVE PERSONNEL
JUNE 30, 2013**

BOARD MEMBERS

Ms. Cynthia Powell, Chair
Term Expires December 31, 2016

Mr. William McMillen - Vice Chair
Term Expires December 31, 2014

Mr. Steve Chapman
Term Expires December 31, 2014

Ms. Kym King
Term Expires December 31, 2016

Ms. Amy Hayden
Term Expires December 31, 2014

ADMINISTRATIVE PERSONNEL

Mr. Michael Borchers
Superintendent

**INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON
COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED
IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS***

To the Members of the Board of Education
Ludlow Independent School District
525 Elm Street
Ludlow, Kentucky 41016

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of Ludlow Independent School District, as of and for the year ended June 30, 2013, and the related notes to the financial statements, which collectively comprise Ludlow Independent School District's basic financial statements, and have issued our report thereon dated September 25, 2013.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered Ludlow Independent School District's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Ludlow Independent School District's internal control. Accordingly, we do not express an opinion on the effectiveness of Ludlow Independent School District's internal control.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or, significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Ludlow Independent School District's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.



Crestview Hills, Kentucky
September 25, 2013

**INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE FOR EACH MAJOR PROGRAM
AND ON INTERNAL CONTROL OVER COMPLIANCE REQUIRED BY OMB CIRCULAR A-133**

Members of the Board of Education
Ludlow Independent School District
525 Elm Street
Ludlow, Kentucky 41016

Report on Compliance for Each Major Federal Program

We have audited Ludlow Independent School District's compliance with the types of compliance requirements described in the *OMB Circular A-133 Compliance Supplement* that could have a direct and material effect on each of Ludlow Independent School District's major federal programs for the year ended June 30, 2013. Ludlow Independent School District's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

Management is responsible for compliance with the requirements of laws, regulations, contracts, and grants applicable to its federal programs.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for each of Ludlow Independent School District's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about Ludlow Independent School District's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for each major federal program. However, our audit does not provide a legal determination of Ludlow Independent School District's compliance.

Opinion on Each Major Federal Program

In our opinion, Ludlow Independent School District complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2013.

Report on Internal Control Over Compliance

Management of Ludlow Independent School District is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered Ludlow Independent School District's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of Ludlow Independent School District's internal control over compliance.

A *deficiency in internal control over compliance* exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. A *material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. A *significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of OMB Circular A-133. Accordingly, this report is not suitable for any other purpose.



Crestview Hills, Kentucky
September 25, 2013

**LUDLOW INDEPENDENT SCHOOL DISTRICT
MANAGEMENT LETTER COMMENTS
FOR THE YEAR ENDED JUNE 30, 2013**

In planning and performing our audit of the financial statements of Ludlow Independent School District for the year ended June 30, 2013, we considered the District's internal control structure to determine our auditing procedures for the purpose of expressing an opinion on the financial statements and not to provide assurance on the internal control structure.

This letter does not affect our report dated September 25, 2013, on the financial statements of the Ludlow Independent School District.

CURRENT YEAR RECOMMENDATIONS

CENTRAL OFFICE

Any exceptions noted during testing appeared to be isolated incidents only.

ACTIVITY FUNDS

Ludlow High School

Any exceptions noted during testing appeared to be isolated incidents only.

Ludlow Elementary School

Any exceptions noted during testing appeared to be isolated incidents only.

STATUS OF PRIOR YEAR RECOMMENDATIONS

CENTRAL OFFICE

None

ACTIVITY FUNDS

Ludlow High School

None

Ludlow Elementary School

None